

PUBLIC SERVICE COMMISSION OF WISCONSIN

Quadrennial Planning Process II

5-FE-100

ORDER

This is the Order establishing the method for calculating the avoided energy costs of natural gas for purposes of assessing the cost-effectiveness of the statewide Focus on Energy (Focus) energy efficiency and renewable resource program.

BACKGROUND

Wisconsin law requires the Commission to review energy efficiency and renewable resource programs every four years to evaluate Focus and set or revise goals, priorities and measurable targets for the programs. Wis. Stat. § 196.374(3)(b)1.

The Commission's decisions in the first Quadrennial Planning Process covered the 2011-2014 period (docket 5-GF-191). The Commission opened Quadrennial Planning Process II by notice dated July 3, 2013, which established that the scope of the review could include revisiting decisions made during the first quadrennial planning process completed in 2010. At its meeting on December 13, 2013, the Commission determined the investigation would include revisiting the method for calculating avoided natural gas costs, in part to further review whether avoided electric and natural gas costs should be calculated using consistent methods. While natural gas costs have historically been calculated using present-day commodity and transmission costs, the Commission determined under the previous quadrennial planning docket that avoided electric costs should be calculated using forecasts of future Locational Marginal Prices for electricity in Wisconsin.

In its Quadrennial Planning decision of September 3, 2014, the Commission ordered that avoided natural gas costs, as well as avoided electricity costs, be based on long-term price forecasts. The order directed the Evaluation Work Group (EWG) to review available sources for long-term forecasts of natural gas prices and recommend appropriate sources and calculating methods to the Commission no later than December 31, 2014.

On December 23, 2014, the EWG submitted its recommendation to use an avoided cost calculation method based on the Henry Hub price forecasts issued in the U.S. Energy Information Administration (EIA) Annual Energy Outlook. The method also recommended adjusting that, using additional EIA data, in order to more precisely estimate the avoided costs specific to the natural gas system in Wisconsin. The Commission discussed the recommendations at its meeting of January 22, 2015. The Commission approves EWG's recommendation.

FINDINGS OF FACT

1. For purposes of evaluating Focus, the EWG's recommended method for calculating avoided natural gas costs as set forth below is reasonable and in the public interest.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction under Wis. Stat. §§ 196.02, 196.374, and 196.395 and Wis. Admin. Code ch. PSC 137 to set and revise the goals, priorities and measurable targets for Focus.

DISCUSSION

After assessing available sources for long-term price forecasts, the EWG concluded that the EIA's price forecasts in its Annual Energy Outlook provide a transparent forecast source at no cost

to Focus. Moreover, the availability of other EIA data related to Wisconsin-specific natural gas prices and regional retail prices allow for adjustments to those price forecasts, using the same source, that provide a more accurate and detailed measurement of Wisconsin-specific avoided costs.

EWG's step-by-step forecast methodology is as follows. The first three steps in the methodology result in a set of annual values through 2040 that can be applied, in step four, to calculate avoided costs each year.

1. Identify annual forecasted Henry Hub natural gas prices from the most recent EIA Annual Energy Outlook.

2. To account for the additional transport and storage costs involved in conveying gas from the Henry Hub to Wisconsin, increase each forecasted Henry Hub price by the five-year average historical differential between Henry Hub prices and Wisconsin City Gate prices, which are also published by the EIA.

3. To account for avoidable distribution costs from the City Gate to customers, adjust City Gate prices based on the five-year average historical differential between Wisconsin City Gate prices and Wisconsin retail prices, also published by the EIA. Calculate separate differentials for the residential and non-residential sectors in order to recognize the differences in distribution costs between those sectors. In addition, reduce the full price differentials to factor out the distribution costs that are fixed in the short term and cannot be avoided through marginal reductions in consumption.

4. In each calendar year, apply the stream of values determined in steps 1 through 3 to the verified net natural gas savings achieved through Focus programs to calculate total avoided natural gas costs for that year.

For the 2015-2018 quadrennium, the stream of values obtained through this method shall be calculated using the 2014 Annual Energy Outlook and the historical City Gate and retail price differentials for calendar years 2009 through 2013. Adjustments to determine the proportion of avoidable costs shall be made using a 2013 New England avoided cost study that estimated that 20 percent of residential distribution costs and 24 percent of non-residential distribution costs were avoidable. The EWG will review the results of the avoided cost calculations achieved through this method each year and may consider updating data sources as needed.

ORDER

1. For the purposes of evaluating the Focus program, an avoided natural gas cost calculation method based on EIA forecasts of Henry Hub prices, adjusted using Wisconsin City Gate prices and retail prices to estimate avoided natural gas costs in Wisconsin, is approved.
2. The avoided cost values shall be updated for each new Focus quadrennium, and may be updated at other times if deemed appropriate by the EWG, consistent with the method approved in this Order.
3. The use of this avoided cost method approved in this Order is limited to the context of the Focus program evaluation.
4. Jurisdiction is retained.

Dated at Madison, Wisconsin, this 25th day of February, 2015.

By the Commission:

A handwritten signature in black ink, appearing to read "Sandra J. Paske", with a stylized, flowing script.

Sandra J. Paske
Secretary to the Commission

SJP:JJF:jlt:DL: 00957790
See attached Notice of Rights

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**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE
TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE
PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of the date of service of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of the date of service of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission serves its original decision.¹ The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

If this decision is an order denying rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not permitted.

Revised: March 27, 2013

¹ See *State v. Currier*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.